Weekly Economic Review

Housing market off to slow start in 2016

Housing Starts

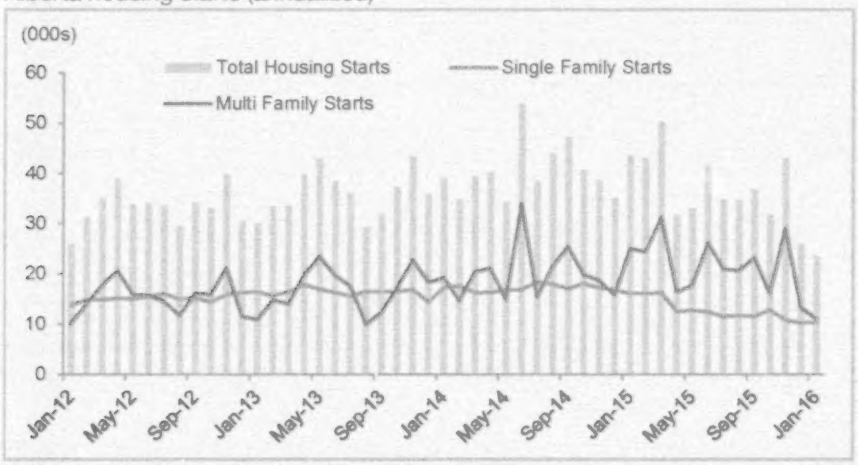
Housing starts slow at outset of new year

Alberta housing starts fell to 23,498 (annualized) in January, the lowest level since June 2011 (Chart 1). On the heels of a sharp drop in December, the decline pushed housing starts down 46% year-over-year. Multi-family starts fell for a second month, down 56% y/y to the lowest level since August 2013. Single-family housing starts were also down 35% y/y. Housing starts in Calgary and Edmonton were each under 10,000 units for a second straight month; starts declined to 7,592 in Calgary (-24% y/y) while starts in Edmonton fell to 8,368 units (-65% y/y).

In 2015, Alberta's housing starts totaled 37,282, down 8.2%, or 3,308 fewer starts than in 2014.

Chart 1: Housing starts down to lowest level since mid-2011

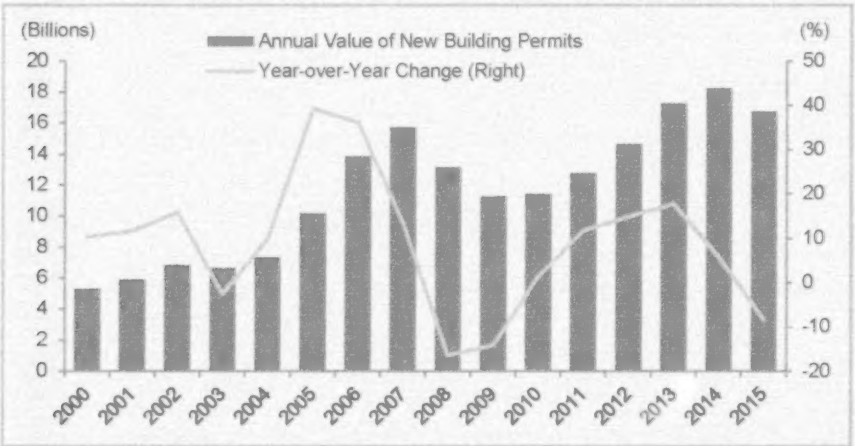
Alberta housing starts (annualized)



Source: Canada Mortgage and Housing Corporation

Chart 2: Permits solid in 2015 despite slowing construction

Annual value of building permits issued and year-over-year changes



Source: Statistics Canada

Building Permits

Permits hold up in 2015

The value of Alberta building permits issued in December totalled $1.2 billion, down 32% y/y. Permit values fell for all building types. Residential permits were down 29% y/y with large declines in permit values issued for single and multi-family dwellings. Non-residential permits were down 35% y/y due to a broad slowdown in industrial, commercial, as well as government and institutional permit issuance.

Throughout 2015, the value of issued building permits totalled nearly $17 billion, down 8.4% from a record of 18.3 billion in 2014, but still strong amid growing weakness in Alberta's construction industry (Chart 2).

New Housing Price Index

Waning pressure on house prices

Prices for new houses in Alberta were nearly unchanged in 2015. The province's New Housing Price Index (NHPI) held steady for the past three months. On a year-over-year basis house prices were down 0.4% in December – the largest monthly decline since February 2010. The weakness was attributable to deflation in non-land prices (-0.9% y/y) and prices for new homes in Calgary (-0.9% y/y). Edmonton's NHPI was weak but still positive at 0.1% y/y. Growth in land

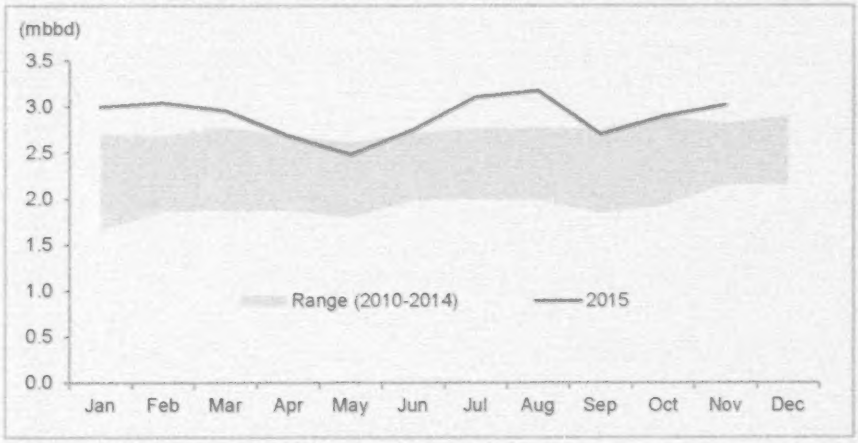
prices has slowed to 0.6% y/y. Due to waning price pressures, Alberta's NHPI eked out a meager 0.7% increase in 2015.

Supply and Disposition of Crude Oil

Non-conventional crude still the engine for production growth

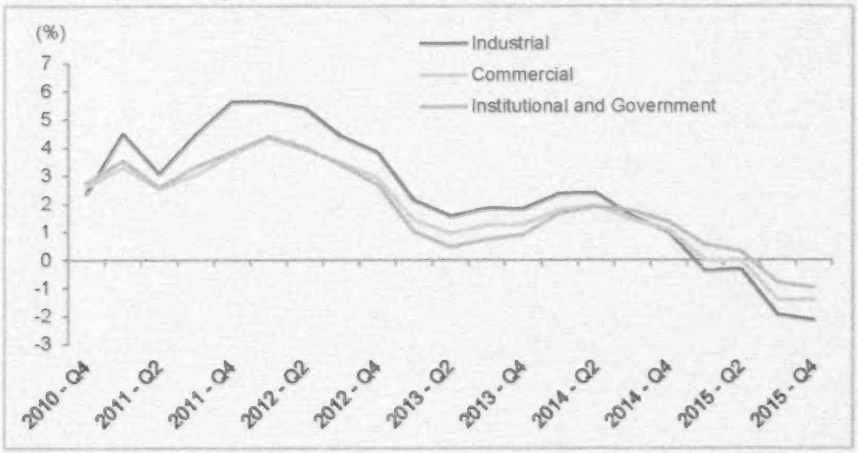
Alberta's crude production was up for a second straight month in November after plunging in September due to supply issues. Production increased to 3.0 million barrels per day (Chart 3), up 8% compared to the previous year. A monthly jump in synthetic oil production bolstered growth. In contrast, bitumen production, which accounts for over half of the province's crude oil supply, declined in November but remained up 23% on a year-over-year basis. Conventional oil production was unchanged in November, though still down from 2014. Natural gas production was also down 3.6% y/y due to unusually warm winter weather and strong production in 2014.

Chart 3: Crude oil production rising despite low prices
Year-over-year change in Alberta crude oil supply



Source: Statistics Canada

Chart 4: Non-residential construction costs fall towards year's end
Year-over-year change in Alberta non-residential construction price index



Source: Statistics Canada

Non-Res Construction Prices

Costs drop further in last quarter

Following a decline in the preceding quarter, Alberta's non-residential construction price index was unchanged in the final quarter of 2015, but down 1.4% y/y. Dwindling investment has lowered building costs across the board: the costs for industrial construction were down 2.2% y/y, government and institutional costs fell 1.0% and commercial costs were down 1.4% (Chart 4). In Edmonton, construction costs declined for the fourth straight quarter, down 1.5% y/y. Construction costs in Calgary fell for a second quarter, down 1.4% y/y.

US Retail Sales

Retail starts 2016 on positive note

Bolstered by solid growth in wages and jobs, US retail sales increased for a fourth-straight month in January, up 0.2% m/m. Several retail categories saw growing sales including grocery stores, building materials and gardening supplies, motor vehicles and parts dealers, as well as general merchandise stores. Gas stations saw the biggest drop in sales, down 3.1% m/m largely due to lower gasoline prices. Sales at sporting goods and furniture stores were also down. Consumer confidence ticked up 1.8 percentage points (pp) m/m but remained down 5.7 pp compared to January 2015. Despite being down on a year-over-year basis, consumer confidence is trending near its previous high levels before plummeting amidst the Great Recession.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.